INSTITUTE OF PUBLIC ACCOUNTANTS®

14 March 2025

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Submitted via email: standard@aasb.gov.au

Dear Dr Kendall

AASB ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*

The Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above Exposure Draft (ED).

GENERAL COMMENT

IPA commends the AASB undertaking the project to simplify GPSF for smaller Tier 3 entities in a single stand-alone accounting standard. IPA therefore supports the overall objectives and principles of the draft standard. In particular, we support the proposals to reduce the accounting choices in areas such as:

- Financial instrument simplification (Q16)
- Practical expedient for identifying the highest and best use of non-financial assets (Q19)
- Specific identification of inventory cost of FIFO or weighted average and prohibiting LIFO (Q20(b))
- Expensing borrowing costs (Q31) and
- Modified retrospective approach and when it is impracticable to determine the cumulative effect of applying a new accounting policy (Q15).

Additionally, we think the above simplification approach should be extended to as many other areas as possible, such as those for complex financial instruments (Q17) and common financial assets and financial liabilities (Q18).

However, we have the following concerns:

1. Threshold for Tier 3 classification (Q1)

ED 335 does not provide a threshold for the size of a Tier 3 entity that falls within the scope of the Standard. We acknowledge that establishing the reporting threshold for a Tier 3 entity may be the remit of the relevant legislation and/or regulator. However, we think that in order to remove the similar self-assess reporting problems of SPFS, the Standard needs to include a definition and/or guidance on the size threshold for a Tier 3 entity that is required to apply the Standard. As such, we recommend that AASB work with regulators to determine the appropriate Tier 3 threshold.

2. Writing/drafting style
We find the proposed requirements in the ED to be unnecessarily verbose, use new terms that are inconsistent with existing standards and at times are unclear, incomplete and difficult to navigate. To better assist users in understanding and applying the requirements of the standard, we recommend the draft Standard undergo a review for further simplification and rephrasing. This is especially given Tier 3, are smaller entities, that have the least knowledge or resources to navigate lengthy and difficult sentence compositions to understand the requirements. It is therefore important that the drafting is simple, concise and uses terms that are consistent and do not conflict with the principles and concepts in existing standards. We have provided examples and suggested editorial changes for consideration in Questions 9, 15, 37 and 38.

3. Too many options
In contrast to the above simplification, there are numerous areas where the ED offers too many options for which an entity needs to apply judgment to analyse in order to determine the accounting treatment. The options undermine the principles used in developing the Standard to consider the user needs and cost/benefit consideration. That is, the draft Standard is supposed to simplify the Tier 2 requirements for application by a Tier 3 entity by reducing and/or removing choices in accounting and disclosures. The options also make it difficult to compare financial statements across entities. Some examples of where options create more complexity unnecessarily are provided in our comments to Q1.

Additionally, where choices are permitted, we prefer the accounting treatment that provides the most relevant and reliable information to users and is practical to apply be prescribed as the requirement, and only permit an alternative accounting treatment if the prescribed requirement is impracticable. We think this approach should be applied to donated inventory (Q20), donated investment property (Q22) and donated intangible assets (Q24).

Further details of our comments on the above are contained in the related questions in Attachment 1.

SPECIFIC COMMENT
Our responses to the specific questions in the ED are in Attachment 1.

For any questions relating to this submission, please contact Vicki Stylianou, Group Executive Advocacy and Professional Standards, Institute of Public Accountants at vicki.stylianou@publicaccountants.org.au.

Yours sincerely

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Vicki Stylianou
Group Executive, Advocacy & Professional Standards
Institute of Public Accountants

Attachment 1 – IPA's responses to ED 335 specific questions

Questions regarding the approach to developing the Tier 3 reporting requirements and major simplifications

Q1. Do you agree with the principles on which the [draft] AASB 10XX *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* is based, described in paragraph BC8 to this ED? If you disagree, please explain why.

IPA agrees with the principles, described in paragraph BC8 on which the draft Standard is based. However, we have reservations that the ED does not provide a definition and/or guidance on the size of a Tier 3 entity that falls within the scope of the draft Standard. We note that paragraph BC7 states that:

> "The Board took the view … as a standard-setter its role is not to, nor does it have the ability or legislative power to, develop financial reporting thresholds in AAS because it views the establishment of appropriate reporting thresholds and any application of a specific form of GPFS to be more appropriately within the remit of the relevant legislation or regulatory authority. Ultimately, the Board developed its proposals for the Tier 3 Standard based on the revised ACNC 'medium' size charities (revenue of $500,000 to less than $3 million) as a **reference point** for identifying transactions and balances of smaller NFP private sector entities that might be permitted to prepare Tier 3 GPFS (Tier 3 entities). However, basing the proposals on ACNC 'medium-size' charities was not intended to act as any financial reporting thresholds to be included in AAS." (emphasis added).

We support the sentiments in paragraph BC7 and its inclusion in the Standard. However, we think that in order to remove the similar self-assess reporting problems of SPFS, being addressed in ED 334, this draft Standard needs to include a definition and/or guidance of the threshold for classification as a Tier 3 entity. As such, we recommend that AASB work with regulators to determine the appropriate Tier 3 threshold.

In the event that the AASB does not provide a definition or guidance for a Tier 3 entity classification, as a minimum, the sentiments of this and reference to paragraph BC7 should be included in the Standard under the "Scope of this Standard" section. This would provide explicit guidance and a "reference point" for the size range of a Tier 3 entity for which the Standard applies along with an explanation as to why the AASB has not included a Tier 3 definition. This would ensure that the intended Tier 3 entities understand this without having to read the Basis for Conclusions of the Standard.

Q2. Do you agree with the Board proposals to simplify recognition and measurement requirements in the above-mentioned Tier 3 Standard including, but not limited to, the following requirements and options:

(a) an accounting policy choice to present consolidated financial statements or only separate financial statements with disclosures about the entity's notable relationships (ie entities with which the reporting entity has at least significant influence);

(b) modified retrospective application (ie no requirement to restate comparative period information) for changes in accounting policies or corrections of prior period errors;

(c) a revenue recognition model with the ability to defer recognition of revenue if there is a common understanding that is evidenced between the provider and the entity on how the cash or other assets received should be used;

(d) no requirement to recognise lease assets or lease liabilities, and lease payments or income are recognised on a straight-line basis over the lease term;

(e) an accounting policy choice to measure donated non-financial assets at cost (which could be nil or a nominal amount) or at their fair value;

(f) measuring loans, including concessional loans, at their face value (the outstanding amount of loan principal) ie without the requirement to discount them to their present value;

(g) measuring short-term and long-term employee benefits on an undiscounted basis;

(h) indicators of impairment of non-financial assets are very limited and simplified; and

(i) applying a book value method for all entity combinations?

If you disagree with any of the simplified recognition and measurement requirements, please explain your reasons why.

IPA agrees with the proposals to simplify the recognition and measurement requirements in the Tier 3 Standard. In particular, the :

- Financial instrument simplification (refer to our comments for Q16)
- Practical expedient for identifying highest and best use of non-financial assets (refer to our comments for Q19)
- Specific identification of inventory cost of FIFO or weighted average and prohibiting LIFO (refer to our comments for Q20(b))
- Expensing borrowing costs (refer to our comments for Q31) and
- Modified retrospective approach and when it is impracticable to determine the cumulative effect of applying a new accounting policy (refer to our comments for Q15).

We think the above simplification approach should be extended to as many other areas as possible, such as those for:

- Complex financial instruments (refer to our comments for Q17) and
- Common financial assets and financial liabilities (refer to our comments for Q18).

In contrast to the above simplification, there are numerous areas where the ED offers too many options, for which an entity needs to apply judgment to analyse in order to determine the accounting treatment. The options undermine the principles[1] used in developing the Standard to consider the user needs and cost/benefit consideration. That is, the draft Standard is supposed to simplify the Tier 2 requirements, for application by a Tier 3 entity, by reducing and/or removing choices in accounting and disclosures. The options also make it difficult to compare financial statements across entities. Some examples of where options create more complexity unnecessarily.

- Section 2 Financial Statement Presentation – provide flexibility for Tier 3 entity to choose the presentation and disclosure format that is not onerous on the entity. We find that the options are too numerous and may serve to confuse rather than be helpful. We are also concerned that the options may reduce the consistency and comparability of the financial statements across entities. We think a better approach would be for the AASB to research the best option as the proposed requirement and await stakeholders' feedback to the extent of preference for other options.
- Para 2.24 – permitting an entity to "use titles for financial statements other than those used in this Standard, as long as they are not misleading. For example, an entity may use 'statement of surplus or deficit' instead of 'statement of profit or loss". The option may make it difficult to compare financial statements across entities and add to another area where an entity needs to apply judgment.

Additionally, where choices are permitted, we prefer the accounting treatment that provides the most relevant and reliable information to users and is practical to apply be prescribed as the requirement, and only permit an alternative accounting treatment if the prescribed requirement is impracticable. We think this approach should be applied to donated inventory (Q20), donated investment property (Q22) and donated intangible assets (Q24).

[1] "(d) where possible, leverage the information management uses to make decisions about the entity's operations. The ability to leverage information management uses is made within the context of the Board's conceptual framework relevant to NFP entities and **user needs and cost/benefit considerations**, and the objective of Tier 3 reporting requirements **fostering comparability** of information across entities that apply them;" (ED 335, page 6, emphasis added).

Q3. Do you agree with the structure of the [draft] Standard, including the use of simplified language to express the Tier 3 reporting requirements? If you disagree, please explain your reasons.

IPA agrees with the structure of the [draft] Standard, including the use of simplified language to express the Tier 3 reporting requirements.

However, we find the proposed requirements to be unnecessarily verbose, use new terms that are inconsistent with existing standards and at times are unclear, incomplete and difficult to navigate. We have provided examples and suggested editorial changes for consideration in Questions 9, 15, 37 and 38.

As stated in our cover letter, to better assist users in understanding and applying the requirements of the standard, we recommend that the draft Standard undergo a review for further simplification and rephrasing. This is especially given Tier 3 are smaller entities that have the least knowledge or resources to navigate through lengthy and difficult sentence compositions to understand the requirements. It is therefore important that the drafting style of the proposals is simple, concise and uses terms that are consistent and do not conflict with the principles and concepts in existing standards. Section 11 “Fair Value Measurement” is an example of a well-written set of requirements and guidance, in that the paragraphs are succinct and easy to follow for what can be a difficult area to understand.

Q4. The AASB is proposing that the effective date of a final Standard would be at least three years after the issue of that pronouncement (for example, if the Standard is issued in December 2025, the effective date would not be earlier than annual periods beginning on or after 1 January 2029). Early adoption would be permitted. Do you agree with this proposal? If you disagree, please explain why.

IPA agrees with the proposed effective date of the final Standard.

Q5. Have you identified any unintended consequences that might arise from the proposals? If yes, please explain what they are and how they can be mitigated.

IPA has not identified any further unintended consequences that might arise from the proposals other than those specified in our responses in Attachment 1.

Q6. Do the proposals create any auditing or assurance challenges? If so, please explain those challenges.

IPA has not identified any further auditing or assurance challenges that might arise from the proposals other than those specified in our responses in Attachment 1.

Q7. Would the proposals result overall in financial statements that are useful to users?

IPA thinks the proposals will result in financial statements that are useful to users. As stated in our cover letter, we commend the AASB in undertaking the project to simplify GPSF for Tier 3 entities in a single stand-alone accounting standard.

Q8. Do you have any other comments on the proposals? If so, please explain the issue and if you disagree with a particular proposal, please explain your reasons why. Also, if you would like to provide more responses to some or all of the specific proposals of the Tier 3 reporting requirements and general matters for comment, please refer to questions 9–44 and respond on those for which you have views. The paragraph references in the questions below are to the [draft] Tier 3 Standard (AASB 10XX) unless otherwise indicated.

IPA has no further comments on the proposals other than those specified in our responses in Attachment 1.

Questions regarding specific proposals for Tier 3 reporting requirements
Section 1: Objective, Scope and Application

Q9. The [draft] Tier 3 Standard (AASB 10XX) (paragraph 1.3) proposes that entities would apply the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards, and any related disclosure requirements (other than transition) in AASB 1060:

(a) AASB 2 *Share-based Payment*, in relation to share-based payment arrangements;

(b) AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*, or AASB 17 *Insurance Contracts*, in relation to insurance contracts;

(c) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in relation to assets held for sale;

(d) AASB 6 *Exploration for and Evaluation of Mineral Resources*, in relation to exploration for, and evaluation of, mineral resources;

(e) AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards, in relation to complex financial instruments identified in Section 10: *Financial Instruments* of this [draft]Standard;

(f) AASB 119 *Employee Benefits*, in relation to obligations arising under a defined benefit plan; and

(g) AASB 141 *Agriculture*, in relation to biological assets, and agricultural produce at the point of harvest.

This approach has been proposed based on the Board's assessment that the topics listed are either not common for smaller NFP private sector entities (refer to paragraphs BC10–BC12 in the Basis for Conclusions for the evidence considered by the Board) or else their complexity warrants the application of those Standards.

Do you agree with the above approach? If you disagree, please explain which Australian Accounting Standards Tier 3 entities should or should not apply and the reasons why. Are there any other requirements or Sections in the [draft] Standard that you consider address transactions or circumstances that are uncommon for smaller NFP private sector entities and which should not be included in the Standard? If yes, what are the requirements or Sections, and please explain your views.

IPA agrees with the above approach for the same reason as the Board's assessment. However, we find the proposed scope sentence, comprising of a five-line lead-in text, followed by seven subpoints to be unnecessarily verbose, long and difficult to navigate. That is, proposed paragraph 1.3 states:

"1.3 A not-for-profit private sector entity that is eligible for, and is required to or elects to apply, the Tier 3 reporting requirements in preparing general purpose financial statements shall apply this Standard and the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards, and any related disclosure requirements (other than transition) in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*:

(a) AASB 2 *Share-based Payment*, in relation to share-based payment arrangements;

….. and

(g) AASB 141 *Agriculture* (August 2015), in relation to biological assets, and agricultural produce at the point of harvest."

We think this important scope paragraph can be simplified by restructuring and rephrasing and offer the paragraph below as a possible replacement:

"1.3 A not-for-profit private sector entity that is eligible for, required to or elects to apply the Tier 3 reporting requirements in preparing general purpose financial statements shall apply this Standard. These entities shall also apply:

(a) the recording, measurement, presentation and transition requirements of the following Australian Accounting Standards:

(i) AASB 2 *Share-based Payment* (July 2015), in relation to share-based payment arrangements;

(ii) AASB 4 *Insurance Contracts* (August 2015) and AASB 1023 *General Insurance Contracts* (July 2004), or AASB 17 *Insurance Contracts* (July 2017), in relation to insurance contracts;

(iii) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (August 2015), in relation to assets held for sale;

(iv) AASB 6 *Exploration for and Evaluation of Mineral Resources* (August 2015), in relation to exploration for, and evaluation of, mineral resources;

(v) AASB 9 *Financial Instruments* (December 2014) and other applicable Australian Accounting Standards, in relation to complex financial instruments identified in Section 10: *Financial Instruments* of this Standard;

(vi) AASB 119 *Employee Benefits* (August 2015), in relation to obligations arising under a defined benefit plan; and

(vii) AASB 141 *Agriculture* (August 2015), in relation to biological assets, and agricultural produce at the point of harvest; and

(b) any related disclosure requirements (other than the transition provisions) in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*."

Similarly, paragraph 2.5 can be clearer and simplified. Our suggested edits are marked as follows:

2.5 Even if an entity's management considers that compliance with a requirement in this Standard would be misleading, entities applying this Standard shall not depart from ~~any of~~ its requirements. In the ~~extremely~~ rare circumstances ~~in which~~where management concludes ~~that~~ compliance with a ~~recording, measurement, presentation or disclosure~~ requirement in this Standard would be ~~so~~ misleading ~~that it would~~and conflict with the objective of financial statements set out in the Conceptual Framework, but the entity's relevant regulatory framework or constituting document prohibits departure from the requirement. Where this is the case, the entity shall~~, to the maximum extent possible,~~ reduce the ~~perceived~~ misleading aspects of compliance by disclosing ~~the following~~:

(a) the nature of the requirement in this Standard and the reason(s) ~~why~~ management has concluded ~~that~~ complying with ~~that~~ the requirement is ~~so~~ misleading and ~~in~~ the circumstances that ~~it~~ would give rise to conflicts with the objective of financial statements set out in the Conceptual Framework; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

Tier 3 Primary Financial Statements (Section 2: Financial Statement Presentation)

Q10. Do you agree that entities applying the proposed Tier 3 reporting requirements should prepare the financial statements set out in paragraph 2.19 of AASB 10XX, that is, a complete set of financial statements, which includes all of the following:

(a) a statement of financial position as at the reporting date;

(b) either:

(i) 11. a single statement of profit or loss and other comprehensive income for the reporting period displaying all items of income and expense recorded during the period, including those items recorded in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income; or

(ii) a separate statement of profit or loss and a separate statement of comprehensive income. If an entity chooses to present both a statement of profit or loss and a statement of comprehensive income, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income;

(c) a statement of changes in equity for the reporting period;

(d) a statement of cash flows for the reporting period; and

(e) notes, comprising material accounting policy information and other explanatory information?

If you disagree, please explain which financial statements should be required by Tier 3 reporting requirements and the reason why?

IPA agrees with a complete set of Tier 3 financial statements to comprise of the proposed primary statements as listed in paragraph 2.19 (a) to (e) and reproduced in Q10 above. However, we find the option of presenting the statement of profit and loss and other comprehensive income as a separate or single statement is another area a Tier 3 entity need not make a decision on. Offering the choice of presentation undermines the objectives of Tier 3 requirements to simplify the reporting by removing choices that an entity would otherwise need to make under Tier 1 and 2 reporting. We, therefore, prefer that staff analyse the most commonly used and simplest presentation and require that in the draft Standard. If staff analysis indicates there is merit in providing options in presentation, then as a variation, the proposal could still require the most commonly used and simplest presentation and permit an entity to disclose the alternative (in the current proposed option) if the entity can demonstrate the alternative presentation would result in the information being more useful.

Q11. Do you agree with paragraph 2.20, which specifies that if the only changes to equity during the periods for which financial statements are presented arise from profit or loss, corrections of prior period errors and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity? If you disagree, please explain why.

IPA supports the proposal, noting our response to Q10.

Tier 3 Primary Financial Statements and Notes – Presentation and Disclosure Requirements (Sections 3–7)

Q12. Do you agree with the proposed information to be presented in:

(a) the statement of financial position as set out in paragraph 3.2 and in the statement of financial position or the notes for items set out in paragraph 3.8 when those amounts are material to an understanding of the entity's financial position;

(b) the statement of profit or loss and comprehensive income as set out in paragraph 4.4 when those amounts are material to an understanding of the entity's financial performance, including separately disclosing the items set out in paragraph 4.5;

(c) the statement of changes in equity as set out in paragraph 5.3;

(d) the statement of income and retained earnings as set out in paragraph 5.5 in addition to the other information required in Section 4: *Statement of Profit or Loss and Other Comprehensive Income*;

(e) a statement of cash flows that presents cash flows for a reporting period classified by operating activities and other activities, which encompass investing activities and financing activities. In commenting on this, please indicate whether you agree with the proposals that (as set out in paragraphs 6.3 and 6.7, respectively):

(i) an entity may elect to present cash flows from investing activities and financing activities either separately or together; and

(ii) an entity may elect to present cash flows from operating activities using either the direct or indirect method; and

(f) the notes to the financial statements as set out in Section 7: *Notes to the Financial Statements*?

If you disagree with any of the requirements, please explain which information should or should not be presented in the respective primary financial statements or in the notes, with your reasons.

Q12(a) to (f) – IPA agrees with the proposed information to be presented in the statements of financial position, profit or loss, changes in equity, income and retained earnings, and cash flows, along with the notes to the financial statements in Section 7. Overall, we find the proposed requirements and associated explanations in some paragraphs and sections useful in that they were clear, concise and easily understandable. For examples:

- Paragraph 4.10 – presenting an analysis of expenses by nature or function
- Paragraph 6.2 – guidance on the 'cash equivalents' term
- Paragraph 6.3 – information to be presented in the statement of cash flows
- Paragraph 6.4 – guidance on operating activities and
- Section 7 – notes to the financial statements.

Q13. Do you agree the guidance provided for presenting an analysis of expenses using a classification based on either their nature or function within the entity in paragraph 4.10 will be helpful to preparers in disaggregating expenses to provide useful information consistently to users of the financial statements? If you disagree, would you prefer the AASB develops a more principles-based approach to help preparers classify and present expenses to provide useful information to users? Please provide your reasons for your response.

As per Q12 above, IPA agrees with the guidance provided for presenting an analysis of expenses by nature or function.

Section 8: Notable Relationships and Consolidated and Separate Financial Statements

Q14. Do you agree with the proposed Tier 3 reporting requirements in Section 8? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) As per paragraph 8.10, an entity applying the Tier 3 reporting requirements that has identified it has subsidiaries shall either:

(i) present consolidated financial statements in which it consolidates its subsidiaries; or

(ii) present, as its only financial statements, separate financial statements that do not consolidate its subsidiaries.

(b) A notable relationship entity exists when the reporting entity has at least significant influence over the entity (with or without holding an investment in the other entity's equity instruments, if any exist), as set out in paragraph 8.1.

(c) A reporting entity with one or more notable relationships preparing separate financial statements shall make an accounting policy election under paragraph 8.5, to measure its investments in notable relationship entities at any of:

(i) cost;

(ii) fair value through profit or loss, unless the entity makes an irrevocable election at the initial recording of a particular investment to present changes in its fair value in other comprehensive income; or

(iii) its equity method-based amount.

Disclosure requirements

(d) A reporting entity with one or more notable relationships that presents separate financial statements and does not present consolidated financial statements is required to disclose the items in paragraphs 8.6 and 8.7 for each notable relationship entity.

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Q14(a) to (d).

Section 9: Accounting Policies, Estimates and Errors

Recognition and measurement requirements

Q15. Do you agree with the proposed Tier 3 reporting requirements in Section 9? Your response may address, but need not be limited to, the following requirements:

(a) An entity shall account for changes in accounting policies other than transitional provisions using a modified retrospective approach without restating information presented for comparative periods, as set out in paragraphs 9.11–9.12.

(b) The effect of a change in accounting estimates shall be applied prospectively from the date of the change in estimates, as set out in paragraph 9.19.

(c) An entity shall correct a material prior period error using a modified retrospective approach without restating comparative periods, as set out in paragraphs 9.24–9.25.

Disclosure requirements

(d) An entity shall disclose, for each prior period error, a description of the error and how it was corrected and, to the extent practicable, the amount of the correction to the opening balances of assets, liabilities and items of equity for the current period, as per paragraph 9.26.

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposed requirements in Section 9 relating to changes in accounting policies, estimates and errors. We find the proposed modified retrospective approach without restating the comparative periods to be a pragmatic requirement for Tier 3 entities. We also support the proposals in paragraph 9.12 for when it is impracticable to determine the cumulative effect of the new policy. However, we note that disclosure of a change in accounting policy in paragraphs 9.1 to 9.16 does not include additional disclosures for when this occurs. To ensure that the 'impractical' condition is correctly applied, we suggest that additional disclosures such as the reason(s) why it is impractical for the entity to determine the cumulative effect and how (ie what assessments) the entity has undertaken for the determination.

Additionally, we think paragraph 9.4 can be better phrased and offer the following editorial suggestion.

9.4 If a transaction, other event or condition is not specifically addressed in this Standard (~~encompassing the requirements referred~~including those ~~to~~ in paragraph 9.3) ~~does not specifically address a transaction, other event or condition to~~and the Standards specified in ~~which~~ paragraphs 1.3(a)–(g) ~~do not apply~~, an entity's management shall use its judgement in developing and applying an accounting policy that results in information that is:

Section 10: Financial Instruments

Scope of requirements

Q16. Do you agree that the proposed Tier 3 reporting requirements for financial instruments should, as set out in paragraph 10.2, apply to the following financial assets and financial liabilities arising from financial instruments identified as commonly held by Tier 3 entities or basic financial instruments in Section 10, being:

(a) cash and cash equivalents;

(b) trade and other receivables ('debtors');

(c) security bonds (eg residential bonds);

(d) term deposits;

(e) government and listed corporate bonds;

(f) units held in managed investment schemes, unit trusts and similar investment vehicles;

(g) non-convertible ordinary and preference shares held in listed and non-listed entities, including shares redeemable for a known amount of cash or the cash equivalent of their share of the investee's net assets;

(h) trade and other payables ('creditors'); and

(i) loans (amounts borrowed or lent, whether bearing interest at fixed or variable rates, interest-free or including terms that create leverage)?

If you disagree, which financial instruments should or should not be subject to the proposed Tier 3 reporting requirements for basic financial instruments or financial instruments commonly held by Tier 3 entities, and why?

Financial instruments can be a complex area even for some Tier 1 and 2 entities. IPA therefore supports the simplification in the measurement and recognition of financial instruments where possible. As such, IPA agrees with the proposed requirements in paragraph 10.2 of listing the financial instruments that are basic or commonly held by Tier 3 entities and simplifying their accounting treatment as per Q18.

Q17. Do you agree that an entity applying the proposed Tier 3 reporting requirements should apply AASB 9 *Financial Instruments* and other applicable Australian Accounting Standards to account for the following complex financial instruments or financial instruments less commonly held by Tier 3 entities identified in paragraph 10.3:

(a) unlisted purchased debt instruments such as unlisted corporate bonds and convertible notes;

(b) acquired equity instruments other than non-convertible ordinary and preference shares;

(c) financial guarantee contracts;

(d) derivatives such as interest rate swaps and forward exchange contracts; and

(e) commitments to provide a loan at a below-market interest rate?

If you disagree, which financial instruments held by Tier 3 entities should or should not be accounted for in accordance with AASB 9, and why?

IPA agrees with providing a list of complex or less commonly held financial instruments. However, we find referring an entity to the requirements of AASB 9 and other applicable Accounting Standards for their accounting may be problematic, as the financial instruments standards are complex and difficult to navigate. We therefore would prefer that the Standard prescribe a measurement basis (such as fair value) for these financial instruments and not refer the entity to the financial instruments and other applicable Accounting Standards.

Recognition and measurement requirements

Q18. Do you agree with the Tier 3 reporting requirements developed for financial assets and financial liabilities that are basic or commonly held by Tier 3 entities as set out in paragraph 10.2? Your response may address, but need not be limited to, the following requirements.

(a) An entity shall record financial assets and financial liabilities initially at fair value (excluding transaction costs and fees incurred by the entity), except that a concessional loan shall be recorded initially at its transaction price (ie the amount of cash lent), as per paragraphs 10.5 and 10.6, respectively.

(b) As per paragraph 10.7, financial assets acquired or originated by the entity to generate both income and a capital return (including all investments in equity instruments) shall be measured at fair value as at the end of each reporting period, except when a reliable measure of the fair value of an investment in an unlisted equity instrument is unavailable. Changes in the fair value of such financial assets shall be included in profit or loss, unless the entity elects irrevocably, on initial recording of the first asset in a class of financial assets, to include changes in the fair value of that class in other comprehensive income.

(c) As per paragraph 10.8, except for transitional provisions in paragraph 29.4, an entity applying the Tier 3 reporting requirements is not permitted to apply hedge accounting, regardless of whether the financial instruments in the hedging relationship are accounted for in accordance with the requirements of this Standard or AASB 9.

(d) As per paragraph 10.17, an entity shall assess whether there is objective evidence of impairment of any financial assets, or group of financial assets, for debtors within the scope of Section 20: *Revenue* and any other financial assets measured at cost as set out in paragraph 10.7(b).

Disclosure requirements

(e) The disclosure requirements relating to financial assets and financial liabilities in paragraphs 10.25–10.30.

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Q18. We also find the guidance for ‘objective evidence’ in paragraph 10.18 useful.

Section 11: Fair Value Measurement

Q19. Do you agree that the proposed Tier 3 reporting requirements in Section 11, including the definition of fair value, should remain consistent with Tier 2 reporting requirements for the reasons explained in paragraphs BC74–BC77? If you disagree, please explain why.

IPA agrees with the proposed Tier 3 requirements in Section 11. We find this section well written in that the paragraphs are succinct and easy to follow for what can be a difficult area to apply. We also agree with the practical expedient in paragraph 11.7 for identifying the ‘highest and best use’ of a non-financial asset.

Section 12: Inventories

Q20. Do you agree with the proposed Tier 3 reporting requirements in Section 12? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) An entity may elect to initially measure the cost of donated inventory either at its cost to the entity (which might be nil, a nominal amount or another significantly discounted amount) or at a reliable measure of its current replacement cost as at the date of donation as per paragraph 12.8.

(b) Requirements concerning the techniques and formulae for measuring the cost of particular items of inventory are set out in paragraphs 12.13 and 12.14. The Board is particularly interested in whether the requirements are useful and proportionate for preparers of Tier 3 general purpose financial statements.

Disclosure requirements

(c) Where an entity has elected to initially measure at its cost to the entity donated item(s) of inventory in accordance with the option in paragraph 12.8(a), it shall, as specified by paragraph 12.20, make the same disclosures about donated item(s) as those required by paragraphs 15.29 and 15.30 of Section 15: *Property, Plant and Equipment* for donated items of property, plant and equipment that the entity elected to initially measure at cost.

If you disagree with any of the requirements, please explain why.

Q20(a) – IPA prefers the Standard requires donated inventory to be initially measured at current replacement cost (CRC) at the date of the donation. This is unless the cost method is a more reliable measurement. This is because, CRC provides more useful information about the entity’s donated inventory, especially if the entity receives a large volume and/or high value donated inventory. To recognise such donated inventory at nil, nominal or significantly discounted amounts could be misleading. As an alternative, the Standard could require only material donated inventory (by nature) to be measured at CRC.

Q20(b) – We agree with the proposed requirements on the techniques and formulae for measuring the cost of particular items of inventory in paragraphs 12.13 and 12.14. We particularly like the requirement to use the first-in, first-out (FIFO) or weighted average cost formula and prohibiting last-in, last-out (LIFO) method. This reduces and/or eliminates a choice that an entity would otherwise need to make. We think this approach should be extended to other areas in the Standard where possible.

Q20(c) – We agree with the proposed disclosure requirements.

Section 13: Investments in Associates and Joint Arrangements

Q21. Do you agree with the proposed Tier 3 reporting requirements in Section 13? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) An investor shall account for its investments in associates and joint ventures in financial statements that are not consolidated financial statements using one of the methods set out in paragraph 13.13:

(i) the cost model;

(ii) the equity method; or

(iii) the fair value model.

Disclosure requirements

(b) The disclosure requirements relating to investments in associates and joint ventures in paragraphs 8.6 (where applicable), 10.25, 10.27 and 13.25–13.28.

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposed requirements in Section 13.

Section 14: Investment Property and Section 15: Property, Plant and Equipment

Q22. Do you agree with the proposed Tier 3 reporting requirements in Section 14 and Section 15 that align the reporting requirements with Tier 2 reporting requirements except for language and further reduced disclosures? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) Allowing Tier 3 entities to elect to measure donated non-financial assets as per paragraph 14.6(a) and paragraph 15.4(a) at either:

(i) cost to the entity (which might be nil, a nominal amount or another significantly discounted amount); or

(ii) fair value as at the date of donation.

Disclosure requirements

(b) Where an entity has elected to initially measure at its cost to the entity donated non-financial assets in accordance with the option in paragraph 14.6(a) or 15.4(a), it shall make disclosures set out in paragraphs 15.29 and 15.30.

If you disagree with any of the requirements, please explain why.

IPA agrees with aligning the Tier 3 reporting requirements with the Tier 2 requirements for investment property and property plant and equipment. However, we prefer donated investment property and donated property plant and equipment to be initially measured at fair value for a similar reason as those stated in our response to Q20(a). This is unless fair value cannot be reliably measured, in which case, the donated investment property and donated property plant and equipment are measured at cost. This is because, fair value provides more useful information about the entity's donated investment property and donated property plant and equipment, especially if high value donated assets are received at nil, nominal or significantly discounted amounts. As an alternative, the Standard could require only material donated investment property and donated property plant and equipment to be measured at CRC.

We also agree with the proposed disclosure requirements for donated non-financial assets.

Section 16: Intangible Assets

Q24. Do you agree with the proposed Tier 3 reporting requirements in Section 16? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) An entity records an intangible asset when it is purchased by or donated to the entity, measured initially at cost or, if donated to the entity, either at cost to the entity or fair value, as per paragraphs 16.3 and 16.4.

(b) Expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, shall be recorded as an expense when incurred, as set out in paragraph 16.7.

(c) An entity shall choose either the cost model in paragraph 16.14 or the revaluation model in paragraph 16.15 as its accounting policy for the subsequent measurement of a class of intangible assets.

(d) All intangible assets shall be accounted for as if they have a finite useful life; however, if the useful life of an intangible asset is indefinite, the useful life shall be determined based on management's best estimate but shall not exceed ten years, as set out in paragraphs 16.17–16.18.

Disclosure requirements

(e) The disclosure requirements relating to intangible assets in paragraphs 16.25–16.29. If you disagree with any of the requirements, please explain why.

Q24(a) – IPA agrees with purchased intangible assets to be measured initially at cost. However, we prefer donated intangible assets to be initially measured at fair value for a similar reason as those stated in our response to Q20(a) and Q22. This is unless fair value cannot be reliably measured, in which case, the donated intangible assets is measured at cost. This is because, fair value provides more useful information about the entity's donated intangible assets, especially if high value donated assets are received at nil, nominal or significantly discounted amounts. As an alternative, the Standard could require only material donated intangible assets to be measured at CRC.

IPA agrees with the proposals in Q24(b) to (e).

Section 17: Entity Combinations

Q25. Do you agree with the proposed Tier 3 reporting requirements in Section 17? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) As of the deemed combination date, the combined existing carrying amounts of the assets, liabilities and items of equity of the entities subject to the combination become the carrying amounts of the assets, liabilities and items of equity of the reporting entity. The deemed combination date is the beginning of the reporting period during which the entity combination occurred (paragraph 17.5).

(b) If a material asset or liability of an entity subject to the combination does not have an existing carrying amount recorded in accordance with Australian Accounting Standards, it shall initially be measured at its fair value as at the deemed combination date as set out in paragraph 17.6. However, if a combining entity was donated a non-financial asset before the entity combination without paying any consideration in return and elected to initially measure that asset at its cost (nil) in accordance with the Tier 3 Standard, the donated asset is excluded from the requirement to be measured at fair value as at the deemed combination date (paragraph 17.7).

(c) Any difference between the carrying amount of the consideration paid by an acquirer of the other combining entities and the carrying amount of the net assets recorded in the combination is recorded directly in equity. An entity combination does not give rise to the recording of goodwill as set out in paragraph 17.7.

Disclosure requirements

(d) The disclosure requirements relating to the entity combination in paragraphs 17.11 and 17.12. If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals except for Q25(a). We think the proposed deemed combination date of the beginning of the reporting period during which the entity combination occur may be subject to manipulation. Consequently, we think the combination date should be the date the combination occurs.

Section 18: Leases

Q26. Do you agree with the proposed Tier 3 reporting requirements in Section 18? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) A lessee records lease payments (excluding costs for services such as insurance and maintenance) as an expense, and the lessor records lease income in profit or loss, over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the lessee's benefit from the leased asset, as set out in paragraphs 18.2 and 18.5.

Disclosure requirements

(b) The proposed disclosures for lessees and lessors in paragraphs 18.8–18.13. If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 18, as it simplifies the recognition and measurement of a lease by a lessee.

Section 19: Provisions and Contingencies

Q27. Do you agree with the proposed Tier 3 reporting requirements in Section 19, including aligning with Tier 2 requirements as explained in paragraph BC16 except for simplified disclosures for provisions, contingent assets, contingent liabilities and guarantees and firm commitments? If you disagree with any of these requirements, please explain why.

IPA agrees with the proposals in Section 19. We also find the guidance useful, especially guidance for the measurement of provisions (paragraph 19.7), firm commitments (paragraph 19.16) and prejudicial disclosures (paragraph 19.18).

Section 20: Revenue

Q28. Do you agree with the proposed Tier 3 reporting requirements in Section 20? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

(a) As per paragraph 20.3, on initial recording of an asset provided to the entity, the entity shall:

(i) record a deferred revenue obligation (liability) if the entity and the provider of the asset have a common understanding that, in response, the entity will perform in a particular manner resulting in the expenditure, transfer or using up of that asset or other assets of the entity with a similar value; or

(ii) if a deferred revenue obligation liability does not exist, record revenue simultaneously with initially recording the asset at the earlier of receiving the cash or other asset and obtaining control of a right to receive the cash or other asset.

Disclosure requirements

(b) The disclosure requirements as set out in paragraphs 20.25–20.30 – in particular, that an entity's total revenue for the period shall be disaggregated into categories that help users of its financial statements assess the nature, amount, timing and uncertainty of each dissimilar type of revenue recorded (paragraph 20.25).

If you disagree with any of the requirements, please explain why.

Determining whether a transaction is revenue and/or income under AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* can be onerous. IPA therefore agrees with the pragmatic approach in simplifying the accounting treatment of revenue as stated in Q28(a). We also agree with the proposed disclosure requirements.

Q29. There is no explicit reference to variable consideration in the initial measurement requirements for accounts receivable, and no explicit requirement to account for any implicit financing to a provider on the grounds that these circumstances are likely to be uncommon, and the inclusion of such requirements is unlikely to be proportionate for Tier 3 entities. Do you agree that the proposed Tier 3 reporting requirements should exclude the following:

(a) any reference to variable consideration from the initial measurement requirements for accounts receivable in Section 20; and

(b) any requirements addressing how to account for a significant financing period provided to a provider, when measuring the amounts of accounts receivable arising from a transfer of goods or service to a customer or beneficiary in paragraph 20.3?

If you disagree, please explain why.

IPA agrees with the proposal to not explicitly reference variable consideration in initially measuring accounts receivable, and not explicitly requiring the accounting for implicit financing. This is because the accounting for variable consideration and financing under AASB 15 can be onerous and therefore disproportionate for Tier 3 entities.

Section 21: Expenses

Q30. Do you agree with the proposed Tier 3 reporting requirements in Section 21 to record expenses upon the recording of a decrease in assets, or an increase in liabilities, and only in relation to amounts paid and payable by the entity with resources it controls, as per paragraphs 21.1 and 21.2? If you disagree, please explain why.

IPA agrees with the proposed accounting of expenses in Section 21.

Section 22: Borrowing Costs

Q31. Do you agree with the proposed Tier 3 reporting requirements in Section 22 to require an entity to record all borrowing costs as an expense in profit or loss in the period in which they accrue, as set out in paragraph 22.1?

If you disagree, please explain why.

IPA agrees with the proposals in Section 21 including, to expense all borrowing costs in the period in which they accrue.

Section 23: Impairment of Assets

Q32. Do you agree with the proposed Tier 3 reporting requirements in Section 23? Your response may address, but need not be limited to, the following requirements.

Scope of requirements

(a) Section 23 applies to all assets other than financial assets within the scope of Section 10: *Financial Instruments* and non-financial assets regularly revalued to fair value, as per paragraph 23.2.

Recognition and measurement requirements

(b) An entity is required to assess the possibility that any non-financial assets are impaired, as set out in paragraph 23.3, when, and only when:

(i) they have been damaged physically or are perishable items that have spoilt or become obsolete; or

(ii) the entity has changed its strategy or been affected by a reduction in external demand for its goods or services and in either case the asset's capacity to provide goods or services or generate sales revenue might have been affected adversely as a result.

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 23 for impairment of assets, especially the simplification of assessing the possible impairment of a non-financial asset.

Section 24: Employee Benefits

Q33. Do you agree with the proposed Tier 3 reporting requirements in Section 24? Your response may address, but need not be limited to, the following requirements.

Recognition and measurement requirements

An entity is required to:

(a) record a provision for employee entitlements to future leave or payments in lieu of leave accumulated as at the end of the reporting period as a result of employee services received until that date, as per paragraph 24.3;

(b) record a provision for non-vesting leave only if, and to the extent that, the leave has been taken by an employee and has not been paid by the entity (ie an amount is due and payable to the employee) at the end of the reporting period, as per paragraph 24.4; and

(c) measure the provision for employee benefits payable to employees, and related employee benefit expenses, at the undiscounted amount of employee benefits expected to be paid, as per paragraph 24.7.

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 24 for the accounting for employee benefits. In particular, the simplification of measuring provisions at an undiscounted amount and using the 'most likely outcome' approach to estimating the provisions for long service leave, instead of the onerous probability-weighted expected value method.

Section 25: Income Tax

Q34. Do you agree with the proposed Tier 3 reporting requirements in Section 25 to require an entity to record income tax expense for the income tax payable for the period? The liability for income tax at the end of the reporting period shall be measured as the sum of the estimated income tax payable for the period and any income tax assessed in respect of a prior period (or periods) and unpaid at the end of the reporting period, as per paragraph 25.1. If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 25 for income tax.

Section 26: Foreign Currency Translation

Q35. Do you agree with the proposed Tier 3 reporting requirements in Section 26 to require an entity with transactions or balances that are not denominated in Australian dollars to translate their amounts to Australian dollars by translating transactions using the exchange rate on the date of the transaction, and translating monetary asset and liability balances using the exchange rate at the end of the reporting period, as per paragraph 26.1? If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 26 for foreign currency translations.

Section 27: Events Occurring after the Reporting Period

Q36. Do you agree with the proposed Tier 3 reporting requirements in Section 27, which align with Tier 2 reporting requirements? If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 27 for events occurring after the reporting period.

Section 28: Related Party Disclosures

Q37. Do you agree with the proposed Tier 3 reporting requirements in Section 28, which align with Tier 2 reporting requirements except for not requiring disclosure of:

(a) key management personnel compensation; and

(b) donations received by the entity from a related party, unless evidence indicates the donations could influence the entity's activities or use of resources, as per paragraph 28.10?

If you disagree with any of the requirements, please explain why.

IPA agrees with the proposals in Section 28 for related party disclosures. We think the disclosure of compensation of key management personnel and donations are important for all entities and are already required by some regulators. These disclosures should therefore be included in the Tier 3 Standard. Additionally, the wording in the paragraphs below can be clearer and tightened – we have marked-up the suggested editorial changes for consideration.

28.1 This section requires an entity to include in its financial statements ~~the~~ disclosures ~~necessary to draw attention to the possibility~~ that its financial position and profit or loss have been affected by the existence of related party relationships, and transactions and outstanding balances with related parties (eg ~~without~~ a related party relationship~~,~~ transaction~~s~~ ~~might not have been~~ undertaken on terms and conditions that is different~~ed~~ from those ~~prevailing~~ in an arm's length transaction~~s~~).

28.2 In general terms, a person or entity related to the reporting entity ('related party') is related by virtue of a relationship of significant (or greater) influence on the entity. This includes, being a member of key management personnel or a close family member of a person qualifying as a related party. ~~A~~The 'related party' ~~is defined~~definition in the Glossary~~;~~ ~~that definition~~ applies ~~to all assessments of~~in assessing when a related party of the reporting entity exists.

Section 29: Transition to Tier 3 General Purpose Financial Statements

Q38. Do you agree with the transitional requirements proposed in Section 29? Your response may address, but need not be limited to, the following requirements.

(a) Allowing first-time adopters of the Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards an election to (1) continue applying all related Tier 1 or Tier 2 recognition, measurement and disclosure requirements to some or all assets or liabilities existing on the transition date or (2) apply the Tier 3 reporting requirements directly on a modified retrospective basis, as per paragraphs 29.3 and 29.4.

(b) Optional relief from disclosing comparative information for the previous comparable period if the entity did not disclose comparative information in its most recent previous financial statements, as per paragraph 29.17(a).

(c) Optional relief from distinguishing corrections of prior period errors and changes in accounting policies when disclosing adjustments to the carrying amounts of assets, liabilities or items of equity on initial adoption, as per paragraph 29.17(b).

The Board decided not to propose any additional transitional relief for entities adopting the Standard prior to its application date.

Do you agree with the proposed transitional requirements in Section 29, as explained in paragraphs BC129– BC133, and that no additional transitional relief should be available for entities adopting the Standard early?

If you disagree with any of the requirements, please explain why, including what additional transition relief should be given to entities adopting the Standard early and the reasons for your proposal.

Overall, IPA agrees with the proposed transition provisions. However, we find the structure and drafting of this section unclear and confusing. As an example, we have marked-up the rephrasing of paragraph 29.3 below that might assist in understanding the requirements.

ED 335, paragraph 29.3

"When applying Tier 3 reporting requirements for the first time, an entity shall select and apply either:

(a) subject to paragraph 29.4, the transition requirements set out in this section; or

(b) all relevant requirements of this Standard on a modified retrospective basis in accordance with Section 9: *Accounting Policies, Estimates and Errors* (ie record the cumulative effect of the new accounting policy as at the beginning of the reporting period of first-time adoption as if it had always been applied, without restating information presented for comparative periods) and apply the disclosure requirements in:

  (i) paragraphs 29.13–29.18 (including the election to use the disclosure exemption in paragraph 29.18); and

  (ii) paragraph 29.23."

Suggested editorial change to paragraph 29.3

"When applying Tier 3 reporting requirements for the first time, an entity shall select and apply either:

(a) subject to paragraph 29.4, the transition requirements set out in paragraphs xx–yy; or

(b) all relevant requirements of this Standard on a modified retrospective basis in accordance with Section 9: *Accounting Policies, Estimates and Errors*. That is:

  (i) record the cumulative effect of the new accounting policy as at the beginning of the reporting period of first-time adoption as if it had always been applied, without restating information presented for comparative periods; and

(ii) apply the disclosure requirements in paragraphs 29.13–29.18 (including the election to use the disclosure exemption in paragraph 29.18); and paragraph 29.23."

We also find transition provisions spanning three pages too lengthy for a Tier 3 entity to navigate. We therefore recommend this section be significantly simplified.

Appendix C: Amendments to other Australian Accounting Standards

Q40. Do you agree with the proposed amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards*? Your response may address, but need not be limited to, comments on the following requirements.

(a) Tier 3 reporting requirements shall, as a minimum, apply to the GPFS of NFP private sector entities that do not have public accountability and are not prohibited from applying Tier 3 reporting requirements by the relevant legislation, constituting document or other document, as per proposed additional paragraph 16A of AASB 1053.

(b) An entity transitioning from preparing GPFS in accordance with Tier 3 reporting requirements to preparing:

(i) GPFS in accordance with Tier 1 reporting requirements for the first time shall apply all the relevant requirements of AASB 1 *First-time Adoption of Australian Accounting Standards*, as per proposed additional paragraph 25 of AASB 1053; and

(ii) GPFS in accordance with Tier 2 reporting requirements for the first time shall apply either all the relevant requirements of AASB 1 or Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, as per proposed additional paragraph 26 of AASB 1053. These entities applying Tier 2 reporting requirements for the first time may elect not to:

(A) restate comparative information presented for prior periods as if the Tier 2 reporting requirements had been applied from the beginning of the earliest prior period presented;

(B) provide comparative information for new disclosures made in accordance with the Tier 2 reporting requirements; or

(C) distinguish corrections of errors made in periods prior to first-time adoption of the Tier 2 reporting requirements and changes in accounting policies, as per proposed additional paragraph 27 of AASB 1053.

If you disagree with any of the amendments, please explain why.

IPA agrees with the proposed amendments to AASB 1053, including those specified in Q40(a) and (b).

General matters for comment

The AASB would also particularly value comments on the following general matters:

Q41. Has the *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in this Exposure Draft?

IPA thinks *AASB Not-for-Profit Entity Standard-Setting Framework* been applied appropriately in developing the proposals in the ED.

Q42. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

IPA is not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

Q43. Are the proposals in the best interests of the Australian economy?

IPA thinks the proposals in the Tier 3 reporting framework are in the best interests of the Australian economy. It provides a framework that harnesses the benefits of GPFS that is proportionate to the size and complexities of smaller entities. That is, Tier 3 entities will be required to prepare GPFS that is accurate, completed, consistent and comparable across the smaller entities.